

"Positions of the Russian Software development industry on the Global market in 2014. Prospects and challenges"

Valentin Makarov
President of RUSOFT Association
www.russoft.org

FRUCT meeting
April 23, 2014
St Petersburg



RUSSOFT
(established on 9.9.99
as Consortium Fort Ross)
www.russoft.org

National Association of 70+ software companies from Russia, offering products and services to the Global market

Lobbying Government for better legislation in Taxation (Law #212 of 2010 on social taxes) and in High Education. Promoter of a HighTech export support State Program

Organiser of annual market studies (11 years) and of different marketing and technology events (RUSSOFT Forum, Mobile Software Forum, Software Engineering Conference, Russian IT-Seasons, ...)

Member of CEEAO, partner to BITKOM (Germany), KISA (Japan), IT-Associations of New England and MidAtlantic (USA), to WITSA, NASSCOM (India) and BRASCOM (Brazil)

11th Annual Software Industry Export Market Survey

- study is based on a Survey conducted by RUSSOFT and by TOY Opinion in January — March 2014 (11th time since 2004)
- 180+ respondents from our software export companies' data-base (1500 companies)
- Industry leaders and leading analysts participate in the preparation of the report
- survey is the unique source of reliable info for the Industry, for the Government and for the whole international IT-Community

General characteristics of the software development industry

(from the annual Industry Survey 2013)

- Number of software developers **120 000**
(400 000 developers altogether in the IT-branch)
- Total number of Universities' graduates with qualification of software developers **850 000**
- Total turnover of the software development industry **\$9,5 Bln**
- Software and Software development services' export **\$4,6 Bln**

Human Capital: Quality

Russia at the ACM International Collegiate Programming Contest



2013: World Champions! 4 out of 13 medals

2012: World Champions! 2 Gold Medals out of 4!

(from appr. 25,000 contestants representing 2,000+ universities from nearly 90 countries on 6 continents)

2011: 5 of 12 medalists

2010: second absolute place, 5 of 13 medals

2009: World Champions, 3 of 4 gold medals,
4 of 13 total medalists

2008: World Champions, 3 of 4 gold medals,
7 of 12 total medalists

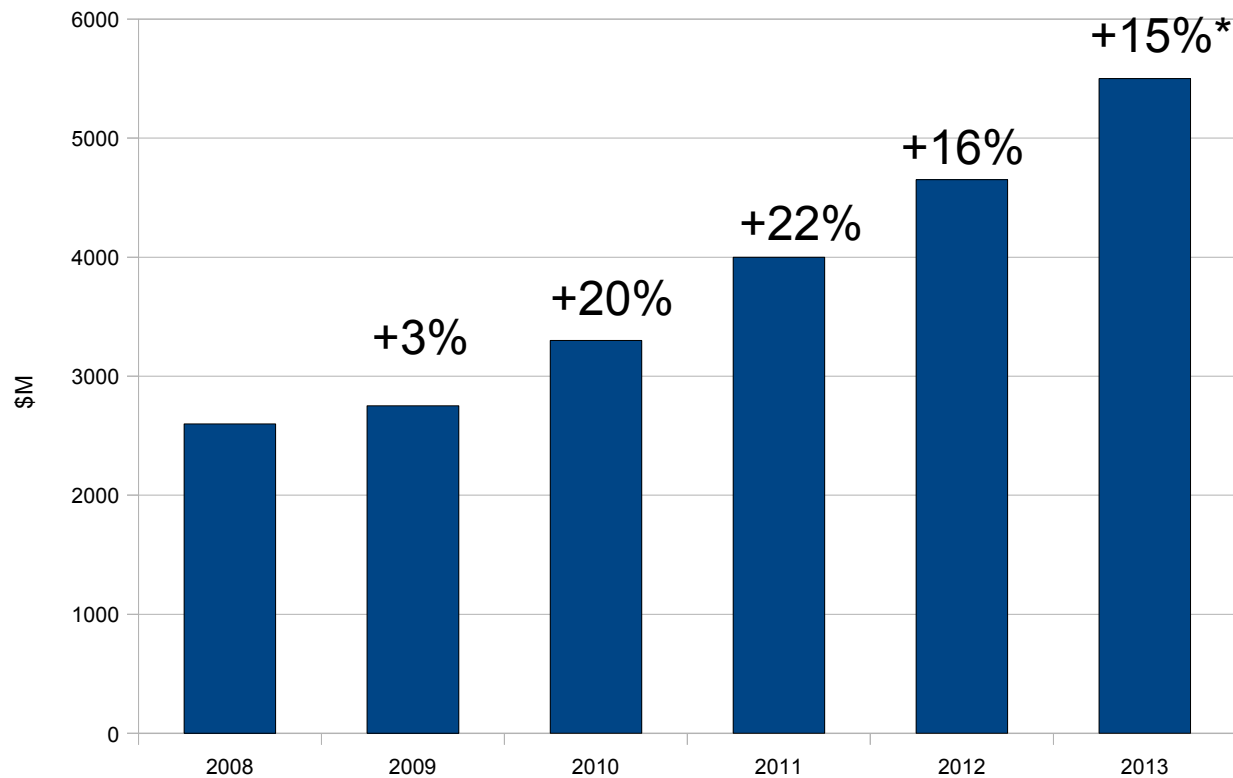
2000-2007: 4 times World Champions,
multiple medalists



RUSOFT
NATIONAL
SOFTWARE
DEVELOPMENT
ASSOCIATION

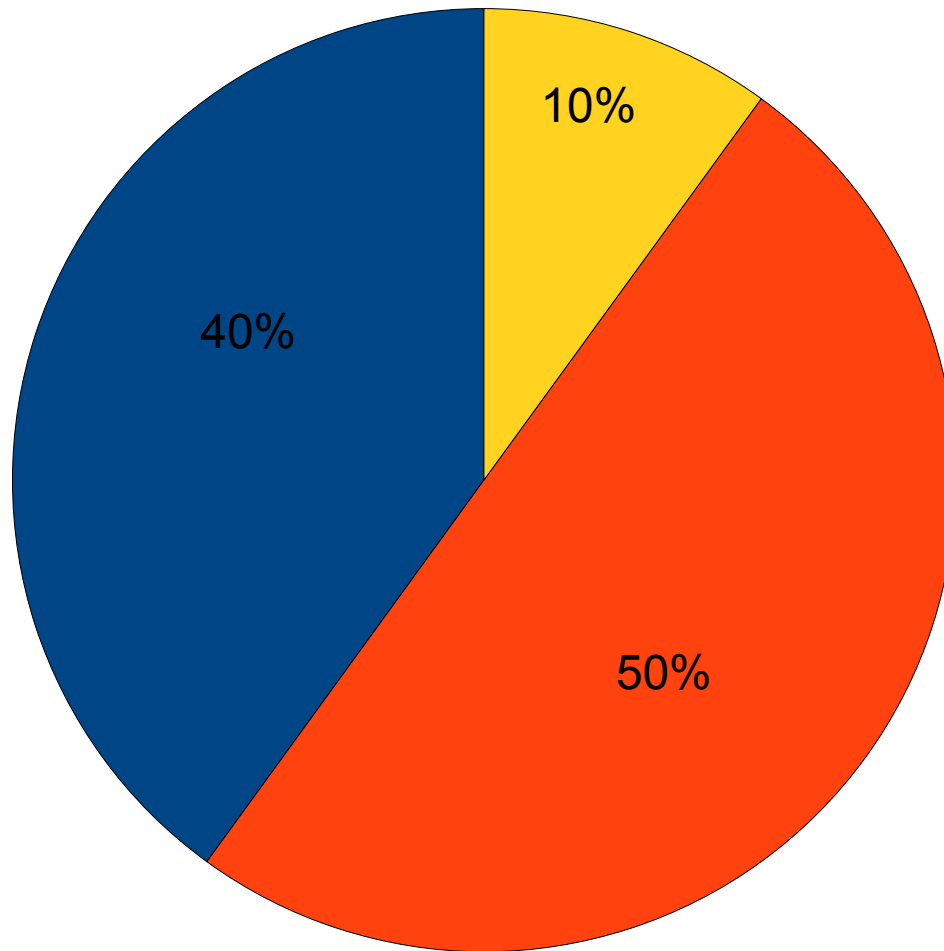
Export of Software and of Software development Services from Russia

\$M



* - forecast

Composition of Export



Services 50%
Software 40%
Software services
From DDC 10%

Captive centers of foreign corporations in Russia

- Motorola (since 1995)
- Intel (biggest R&D resource of Intel outside the US)
- Oracle, EMC, T-Systems, Siemens, Deutsche Bank, Schlumberger, IBM, Google, Cisco Systems, ...
- 12% of the total software export from Russia (\$500 M) with 12% growth rate

«Best 100 Global Service Providers» (IAOP, 2013)

Russia

**Artezio, Auriga, , DataArt, EPAM Systems, FirstLine Software,
Luxoft, MERA Networks, Reksoft**

Lanit-Tercom, ICL-KMO, Arcadia

Ukraine&Byelorussia

**EPAM Systems, IBA Group, Intetics, Itransition,
Miratech, SoftServe, Ciklum**

New Russian Software Leaders in the Gartner «Magic Quadrants»

Three more Russia Software vendors got into the «Magic Quadrants» of Gartner in 2012-2013:

PROGNOZ (Perm) - «**Business Intelligence**»

Diasoft (Moscow) - «**Core Banking**» and
«**Retail Core Banking**»

InfoWatch (Moscow) - «**Data Loss Prevention**»

Russian Segment of Mobile Applications (including games)*

- Number of companies in the segment (2012)
— **2300**
- Estimation of export — **\$200 M**
- Annual growth rate — **60%**
- Estimation of the Mobile appl. Market in 2016
— **\$1,3 B**
- Anticipated growth of the segment from 2012 to 2016 — **8 times**

* Source - Jayson'&Partners, 2013

Main results and tendencies of the industry development in 2013

Growth rate of Turnover:

20%-23% (23% in 2012)

Forecast for the Growth rate of Turnover for 2014:

23%-28% (forecasted 22% in 2013)

- Growth of number of personnel:

15% (14% in 2012)

- Export Growth rate:

16% (16% in 2012)

- Forecast for the Growth rate in 2014:

16% (forecasted 20% in 2013)

- Personnel turnover 10%

New tendencies

- An important growth of SMEs' turnover has been witnessed for the first time within the last three years (as a logical result of decreasing the minimum staff number to be applicable for the social tax incentives)
- The biggest part of the export growth is being achieved by the development centers of Russian companies overseas (20%-25% against 7%-10% of growth in Russia). Export of bigger companies grows faster than that of SMEs
- The salary level in both Russian capitals reached the critical level. We may speak right now about the need of importing the workforce from other countries and about bringing the development centers of Russian companies outside Russia

The input of the Ukrainian crisis

- Economic and political sanctions against Russia, undertaken by the EU and the USA because of the situation in Ukraine, pushed the Russian software industry to diversify its international marketing towards China and Far East as a total, as well as to Latin America and to arab countries
- Analysts and investors expect situation to return to the norm within 5-6 months.
- The situation will evolve Russian government to stimulate local production and to replace foreign software by Russian analogues in sensitive areas

Venture Capital in Russia*

- total number of venture funds active in Russia — 150
- total value of available venture capital - \$6,8 B
- 72% of all VC investments in 2010-2012 came from abroad
- Total volume of VC investments 2012 was \$910,6 Mln (in 201 deals)
- Total volume of VC investments in IT - \$792 M (87%), which is **twice** higher than in 2011

* source — RVC and PwC

Successful IPO of Russian IT-businesses

2010	Mail.ru	(\$5,4 B)	
2011	Yandex	(\$8,1B)	
2012	EPAM Systems	(\$570 M)	\$1 B+
2013	Luxoft	(\$700M+)	
2013	Qiwi	(\$884 M)	

Who is the next?

Kaspersky Lab, 1C, Veeam, iFree,... ?

Problems and opportunities of Investments in high-tech Russia

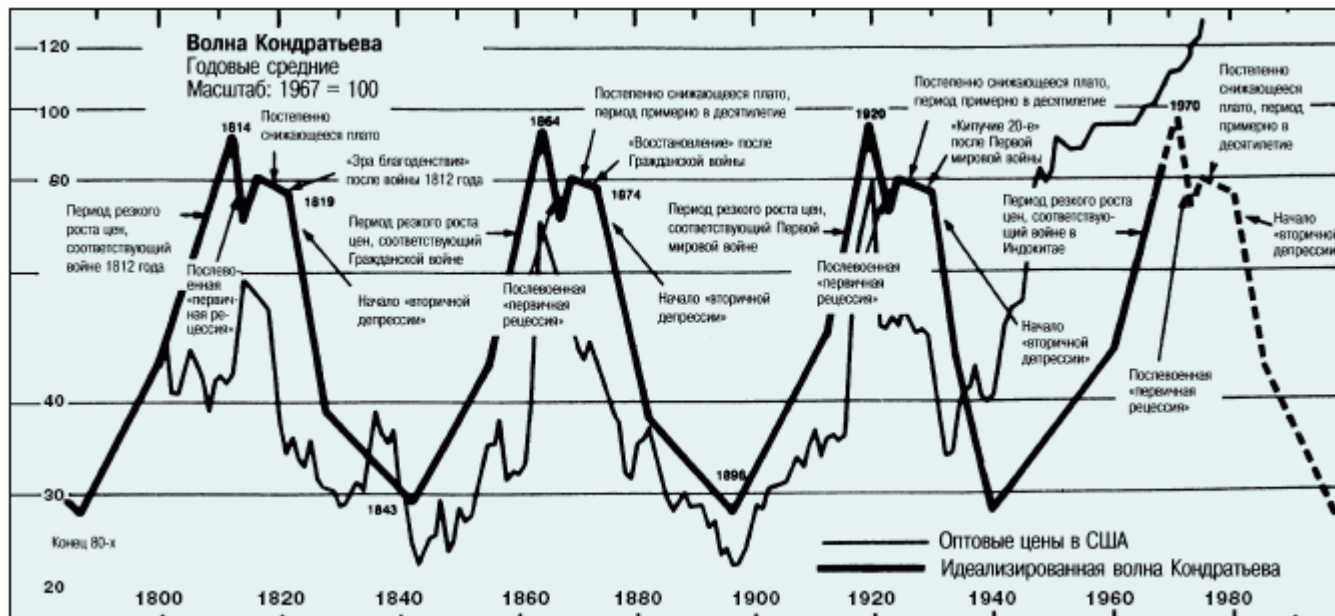
- *25% of respondents planned to attract investments in 2013
- ** average value of a deal in the IT-sector has grown from \$2,8 M to \$5,1 M
- ** funds available/investments 7:1 (4:1 optimal)
- * end of easy money. Investors prefer later stages of investments
- according to Morgan Stanley, between 2012 and 2015 the VC investments in the e-Commerce in Russia will grow 3 times (from \$12 B to \$36 B) while the number of Internet users will grow from 53 M to 87 M.
- Russia is №1 in Europe by the number of Internet users

* RUSSOFT annual report, 2013

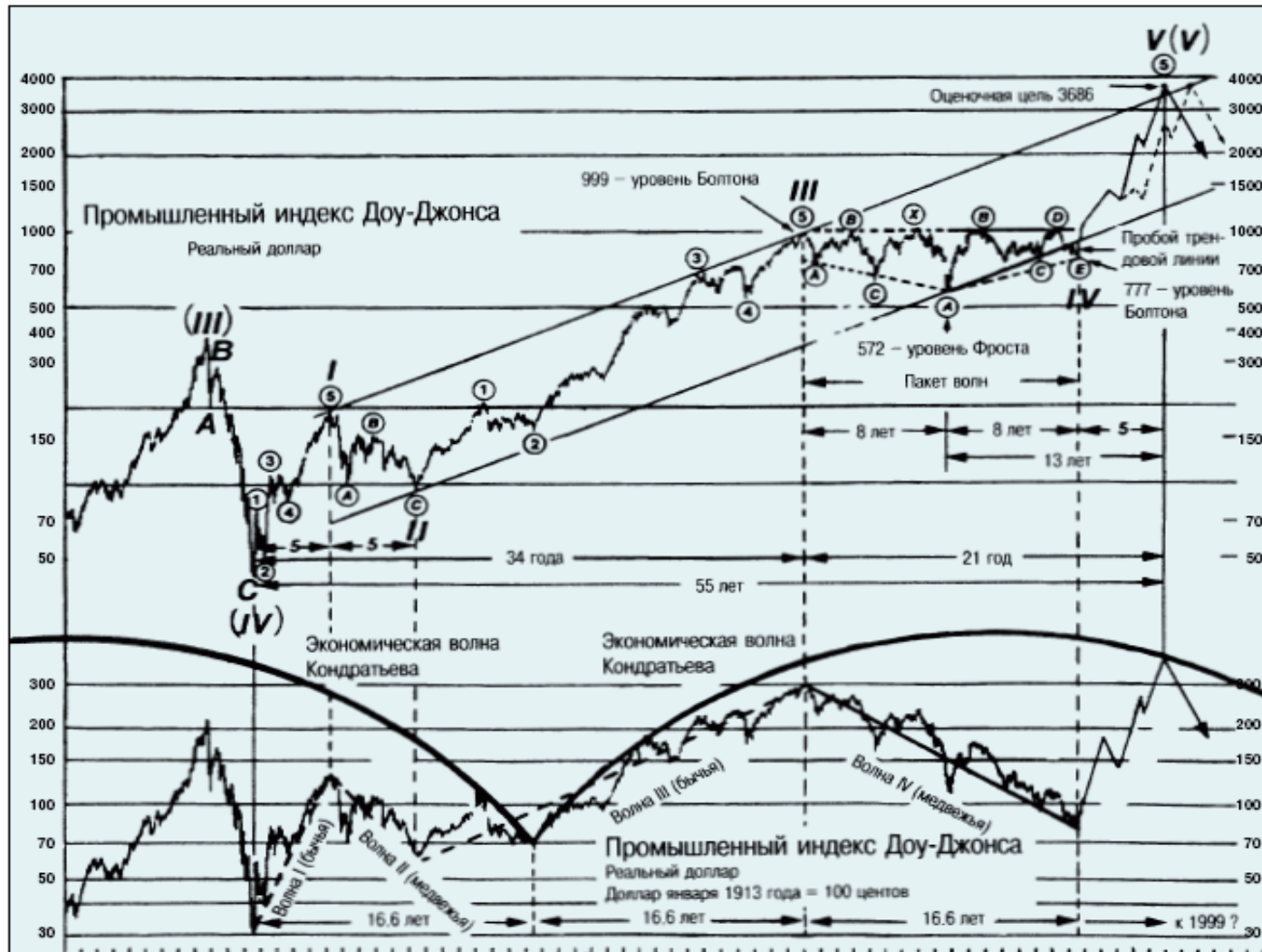
** RVC and PwC report, 2013

Long Economy Development Waves

(named after Nikolay Kondratyev)



We are just within the 5th Long Economy Wave (Technology Setup)



What Kondratyev's Theory of Long Waves claims from Russia?

- Carlotta Peres (GB, an anticipated next Nobel Prize winner in Economics):

... if you want to catch the new Technology Wave, you in Russia need to undertake tough changes in legislation and in its implementation in order to fit requirements of the New Wave growth (IT+Nano+Bio)

From a private discussion at the «Return to the Leadership» international Forum, organised by Expert Media Holding in Moscow on November 27, 2012

Main Challenges

- Taxation system
- Other administrative barriers (Customs, Currency Control, Export Control, Accounting System)
- Educational System
- Lack of stimulus for Business investing in post-graduate Education
- Distribution of funds for Fundamental and for Applied research through the Government (MinObrNauki and MinPromTorg)
- Lack of Integrated Export Promotion Program

What to do?

- Dialogue between Software Industry Associations and the Government needs to be more stable and effective. The prolongation of the Social tax incentives is a critical issue
- Further growth of the Software industry in the Global market strongly needs implementation of an effective State Program of HighTech export support (APEX Russia)
- Development of the Educational system and introduction of PPP into the post-graduate training is the Primer concern of the industry
- Software Industry becomes more and more the softpower of reforms in the Russian Society and in the National Economy. Software creates new opportunities for development of innovative industries while the modernisation of the traditional Russian economy is unthinkable without Information Technologies